

Accounts Commission response to the Ipsos-MORI evaluation of the BV2 Pathfinder audit process: next steps in refining the BV2 audit process

Background

1. The Local Government in Scotland Act 2003 placed a legal duty of continuous improvement on local authorities (removing the voluntary duty of Best Value that had hitherto existed) and also led to the introduction of community planning on a statutory basis. In response to the Act, the Accounts Commission introduced a programme of Best Value audits (BV1), bringing a new form of accountability to Scottish councils.
2. In 2007, when audit reports for around half of Scottish councils had been published, the Accounts Commission launched an independent review of BV1 to evaluate its impact and effectiveness and to identify changes that might be needed in the second round of audits. The overall conclusions of the review report (*'Decisive Moment'*¹) were that the audit was well-established and credible and had been effective in broad terms. However, it also identified a number of areas where the audit approach could be strengthened. In particular, the review suggested the need for a stronger outcome and citizen focus in the audit, together with a greater emphasis on supporting continuous improvement. It also raised issues of consistency and transparency between audits and the need for better coverage of service performance.

Best Value 2

3. On the basis of these findings, the Accounts Commission began developing a set of principles to underpin the Best Value improvement process and the design of the second round of best value audits (BV2). These principles were:
 - a focus on outcomes as well as performance management processes
 - an emphasis on the effectiveness of partnership working
 - improved coverage of service performance and the use of resources
 - a proportionate and risk-based approach founded on self-assessment
 - clear audit reporting and transparency of audit process
 - support for improvement and the sharing of good practice
4. In late 2007 and early 2008 the Accounts Commission consulted with councils, consumer organisations, the Scottish Government and other key stakeholders on its proposals for BV2 (***add hyperlink***), using the principles set out above as a basis for dialogue around potential improvements for implementation in the BV2 process. The feedback it received informed the development of the Best Value 2 audit process. The main changes to the BV1 audit process which the Commission introduced in response to feedback from councils and others are set out below (Exhibit 1).

¹ Grace, C., Nutley, S., Downe, J. and Martin, S. (2007), *Decisive Moment: The independent review of the Best Value Audit*. Edinburgh University Press: Edinburgh

Exhibit 1

The key changes introduced through the BV2 audit process

- **BV2 will be more proportionate and risk-based**

The size and focus of audit in each council will vary to reflect the degree of risk around the council's performance. We will place a much stronger emphasis on the range and quality of information that councils provide about how they are performing and improving. This information will help us to assess the scope of BV2 audit required for each council. We will use Single Outcome Agreement (SOA) data to inform our risk assessments.

- **BV2 will be the focus for more streamlined scrutiny**

The BV2 audit process will be founded on shared risk assessments undertaken with the other local government scrutiny bodies and updated annually. These will form the basis for decisions about what scrutiny is required in each council, and how it will be carried out. We will also develop a single corporate assessment which will be used by all the local government scrutiny bodies and carried out in an integrated way.

- **BV2 will introduce clearer judgements of council performance**

We are proposing two new judgements of the council's overall performance:

- A **pace and direction of travel** judgement which will report on the council's record in improving the services it provides
- A **capacity for improvement** judgement which will assess the council's prospects of further improvement.

We believe that these new judgements will provide a clear signal to the public about the performance of their local council and will also help those responsible for services to track improvement over time.

- **BV2 will include a clearer assessment of how council services perform**

We will draw on a broader range of performance information and work closely with other scrutiny bodies to integrate their judgements, to provide a clearer picture of how council services perform.

- **BV2 will have a stronger focus on partnership working**

The audit will assess how effectively councils are working with other partner organisations, such as police and fire services, the NHS and the voluntary sector. Our longer term aim is to review how well public bodies work together in local areas to deliver high quality outcomes and services for local people while using public money as effectively as possible.

- **BV2 will listen more closely to what local people have to say**

BV2 will have a stronger focus on the way the local authorities assess and respond to the views of the people who use their services, and of local citizens generally. The priorities of local people's will be an important element of BV2 risk assessments.

- **BV2 will involve senior officers and elected members in audit teams**

We will introduce arrangements for involving peers in audit teams carrying out corporate assessments of local authorities. The presence of officers and members will complement the expertise within Best Value teams and provide opportunities for learning that will benefit local government.

- **BV2 will provide greater support for improvement**

We plan to strengthen the support we can provide for improvement by providing more and better access to guidance and examples of good practice.

Source: Audit Scotland

BV2 Pathfinder audits

5. In spring 2009, the Accounts Commission published its response to the BV2 consultation exercise (***add hyperlink***) and set about testing its proposals for BV2 by undertaking five Pathfinder audits. The councils chosen for the Pathfinder audits were:
 - Angus Council
 - Dundee City Council
 - East Ayrshire Council
 - Scottish Borders Council
 - The Highland Council
6. These councils were selected on the basis of being broadly representative of all local authority areas in Scotland in terms of their size, socio-demographic profile and geographical location.
7. The audit work at the five Pathfinders took place between June and December 2009, and the five Pathfinders audit reports were published between March and May 2010.

Independent review of the BV2 Pathfinder audits

8. The Accounts Commission made a commitment to conduct an independent review of the Best Value 2 (BV2) Pathfinder audits as part of a wider body of research concerning the implementation of BV2. Ipsos MORI were commissioned by Audit Scotland, on behalf of the Accounts Commission, to undertake this work. Their independent review work drew primarily on interviews with chief executives, senior officers and elected members in the Pathfinder councils, but also involved feedback from key national stakeholders and engagement with Audit Scotland staff who were involved in the Pathfinder audits.
9. The Ipsos MORI research report (***add hyperlink***) is structured around the key changes and improvements that were introduced and tested through the Pathfinder audit process (a proportionate and risk-based audit, a stronger focus on outcomes and partnership working, a more citizen-focused audit, peer involvement, improved audit reporting (including the two new BV2 audit judgements), and supporting improvement). It also contains a set of recommendations for refining and improving the BV2 audit process.
10. The key findings from the Ipsos MORI review work are set out in Exhibit 2, below:

Exhibit 2

Key findings from the Ipsos MORI review of the BV2 Pathfinder audit process

A proportionate and risk based audit - Councils welcomed the proportionate and risk-based approach taken in the BV2 Pathfinders with a number of participants using the phrase 'light touch' to describe the audit. In general, it was felt that the risk areas highlighted in the audit were appropriate. However, participants felt that there was a lack of transparency in the process through which the risk areas were selected.

Councils found the Initial Risk Assessment (IRAS) document to be useful. However, there was a concern from some participants that the audit teams were drawing conclusions about the council before the audit had begun, rather than simply identifying the risks.

The performance of the audit teams - Participants commonly spoke favourably about the audit teams, praising their knowledge and professionalism. However, they had mixed views when it came to auditors' knowledge about their *specific* council with a number saying that they had not 'done their homework'.

Focussing on outcomes and partnerships - There was some difference of opinion as to whether the BV2 Pathfinders had achieved a greater focus on outcomes. Some participants did feel that the approach Audit Scotland took to outcomes was appropriate while others took the view that the emphasis on management processes was still too great. Councils felt that there were challenges involved in assessing outcomes to which Audit Scotland should give more consideration. These included assessing councils' direct impact on outcomes and assessing progress on long term outcomes.

There was some concern among Pathfinder councils was that they could be held responsible for the poor performance of their partners which could count against them in the judgements.

Citizen focus - Participants generally felt that the audit teams did take citizens' views into account, typically through survey data. However, there was a perception among some councils and national stakeholders that there had been little change in the consideration of citizens' views in BV2 compared with BV1 and that this was an area for improvement.

Peer involvement - While the majority of councils viewed the introduction of peer auditors favourably, opinion was divided as to whether the implementation of this initiative was successful. The strength of peer involvement was seen to lie in having someone who understands the challenges of local government, an objective 3rd party and a mechanism to improve inter-council co-operation.

The main criticism of the introduction of peers was the lack of clarity surrounding the role, felt by both the councils and the peers themselves.

Audit reporting - There was consensus that the reports were a significant improvement over those produced in BV1. However, councils typically commented that the tone of the report was overly negative, and felt that a more balanced approach should be taken to provide a fair reflection of council performance. Most participants felt that there was a lack of transparency in how the two new BV2 judgements were reached. For example, some felt that the narrative of their report was more positive than the judgements, while others would have liked to have seen more evidence of how the judgements were reached.

While most participants were content with the opportunities they had to discuss their draft report with the audit team, some were unhappy that the report went to the Quality and Review Panel before they had the chance to correct any factual inaccuracies.

Support for improvement and the sharing of best practice

Participants were generally in favour of Audit Scotland playing a role in supporting improvement and sharing best practice.

Source: Ipsos-MORI

Accounts Commission consideration of the Ipsos-MORI report

11. The Commission considered the Ipsos-MORI Scotland research report, alongside a report by the Director of Best Value and Scrutiny Improvement on the further development of the Best Value 2 audit approach, at its July 2010 meeting (*add hyperlinks*).
12. The Commission considered the issues highlighted by the two reports and their recommendations. The Commission concluded that whilst the Pathfinder audit process had clearly demonstrated improvements in a number of important areas (proportionality and risk, credibility and quality of audit teams, general support for peer involvement, the quality of local audit reports, the clearer focus on outcomes rather than solely management processes) a number of areas had been identified where either improvements were needed or further consideration of how best to either achieve the Commission's ambitions for BV2 was required. These included:
 - The need for the Commission to make the BV2 judgements clearer to the public by using simpler and clearer language, both for the BV2 judgements and performance descriptors.
 - The need to consider the sequencing of the quality assurance processes linked to the new BV2 judgements to address the concern amongst a number of Pathfinder councils that their audit report (and recommended judgements on pace of change and direction of travel) were considered by Audit Scotland's Quality and Consistency Review Panel (QCRP) before the council had the chance to raise any factual inaccuracies with the audit team.
 - Further consideration of how to balance clear and straightforward reporting to the public on overall council performance (through the two new BV2 judgements) whilst retaining a comprehensive and sufficiently nuanced and narrative within the detailed audit report about the range of performance identified across different aspects of council activity (leadership, outcomes, services, VFM, etc.). An important aspect of this, from councils' perspectives, being including ensuring transparency within the audit report about the basis on which the judgements had been reached.
 - The need to improve the timeliness of reporting by reducing the elapsed time between concluding audit fieldwork and issuing draft audit reports to councils.
 - The need for the Commission to clarify for councils the period of time over which their performance will be assessed when judgements are formed as part of a BV2 audit.
 - The need to more clearly articulate to councils and other interested parties the various roles that peers might play in the BV2 audit process moving forward, and ensure that the specific role(s) that individual peers will play within individual BV2 audits is effectively communicated to the council concerned.
 - The need to address the concerns which were highlighted about the perceived lack of transparency about a number of important aspects of the audit process, most notably self evaluation, the BV2 audit judgements, peer involvement, and quality assurance arrangements.

- The need to reflect further on how best to audit and report on outcomes and partnerships given the challenges highlighted by some councils concerning the long-term nature of some outcomes and the difficulties of attributing performance and impact amongst partners.
- The need to consider how to further refine and strengthen the citizen focus of the BV2 audit given the feedback that councils and other interested parties felt that there had been modest improvements in this area compared to BV1 audits.

13. The actions that the Accounts Commission and Audit Scotland are taking in response to these areas for improvement are set out in Appendix 1.

What happens next?

14. The Commission will work closely with Audit Scotland to ensure that the improvement actions set out in this paper are taken forward effectively. In doing so, the Commission will continue to engage with key stakeholders such as COSLA, SOLACE and the Scottish Government to ensure that the audit process continues to develop in a manner that reflects the changing context of public service delivery in Scotland, not least the changing financial context.

Appendix 1

Action that is being taken by the Commission and Audit Scotland in response to the BV2 Pathfinder evaluation

Issue	Action
<p>The need for the Commission to make the BV2 judgements clearer to the public by using simpler and clearer language, both for the BV2 judgements and performance descriptors.</p>	<p>Having reflected on the Consumer Focus Scotland feedback on the preference amongst consumers for short, ideally one-word, descriptors (strong, good, satisfactory, weak) to describe council performance the Commission has approved a new shorter simplified set of descriptors to those which were applied through the BV2 Pathfinder audit process. It has also agreed to replace the judgement descriptor of 'pace and direction of travel', which councils found confusing, with a judgement on 'How good is my council's overall performance?'</p> <p>The Commission's proposed new model for the two BV2 judgements based on these changes is set out at Appendix 1 to this paper.</p>
<p>The need to consider the sequencing of the quality assurance processes linked to the new BV2 judgements to address the concern amongst a number of Pathfinder councils that their audit report (and recommended judgements on pace of change and direction of travel) were considered by Audit Scotland's Quality and Consistency Review Panel (QCRP) before the council had the chance to raise any factual inaccuracies with the audit team.</p>	<p>The Commission and Audit Scotland have acknowledged the significance of these concerns and have agreed with SOLACE that following the Pathfinder audit process the sequencing of the BV2 audit process will be changed to allow for factual accuracy checking of audit reports before they are considered by Audit Scotland's Quality and Consistency Review Panel (QCRP).</p>
<p>The need to consider how best to balance clear reporting the public on overall council performance through the two new BV2 judgements with a sufficiently nuanced and sophisticated narrative about the range of performance identified across different aspects of council activity, including ensuring transparency within the audit report about the basis on which the judgements had been reached.</p>	<p>To address the concerns about lack of transparency, in future audit reports will clearly identify, through shading or emboldening in the Appendix to BV2 audit reports, how the council has been rated against each of the individual BV2 criteria and therefore how the Controller of Audit has arrived at his two overall BV2 judgements. Such a development will:</p> <ol style="list-style-type: none"> a) provide greater transparency b) present a more sophisticated and potentially more balanced presentation of the council's overall performance, and c) more clearly set out where the council needs to focus its improvement agenda
<p>The need to improve the timeliness of reporting by reducing the elapsed time between concluding audit fieldwork and issuing draft audit reports to councils.</p>	<p>Audit Scotland is currently reviewing its management processes which underpin the BV2 audit quality assurance process to improve timeliness and address this concern.</p>
<p>The need for the Commission to clarify for Councils the period of time over which their performance will be assessed when judgements are formed as part of a BV2 audit.</p>	<p>The Commission has confirmed that in general the period of time over which council performance will be assessed for BV2 audit purposes will be the period between its initial BV1 audit and the point at which the BV2 audit is taking place. Such judgement will, of course, need to acknowledge and reflect any significant political or managerial changes that have taken place within the council over the intervening period.</p>

Issue	Action
<p>The need to more clearly articulate the various roles that peers might play in the BV2 audit process moving forward, and ensure that the specific role(s) that individual peers will play within individual BV2 audits is effectively communicated to the council being audited.</p>	<p>Audit Scotland will prepare updated briefing material for both peers and other interested parties such as councils setting out how peer involvement will operate as part of the BV2 audit process. This will explain the various ways in which peers can be involved, the rationale for selecting different models and how their involvement should be communicated to councils prior to any audit taking place.</p>
<p>The need to address the concerns which were highlighted about the perceived lack of transparency of the audit process by developing clear and understandable information for officers, members and other interested parties on what to expect from the BV2 audit process (self evaluation, the BV2 audit judgements, peer involvement, quality assurance arrangements, the role of the Accounts Commission).</p>	<p>Audit Scotland is currently preparing briefing material on the BV2 audit process which can be shared with officers, members and other interested parties setting out what to expect from the BV2 audit process. This material will cover self evaluation, the BV2 audit judgements, peer involvement, quality assurance arrangements, the role of the Accounts Commission.</p> <p>Once this material has been finalised copies will be sent to all Chief Executives and leaders and placed on Audit Scotland's website.</p>
<p>The need to reflect further on how best to audit outcomes and partnerships given the challenges highlighted by some councils concerning the long-term nature of some outcomes and the difficulties of attributing performance and impact amongst partners.</p>	<p>The Accounts Commission and Audit Scotland will continue to engage with key stakeholder groups such as COSLA, SOLACE, and the Scottish Government in relation to this matter, in the context of the evolving nature of SOAs and the broader public service and scrutiny reform agenda.</p>
<p>The need to consider how to further refine and strengthen the citizen focus of the BV2 audit given the feedback on modest improvements in this area compared to BV1 audits.</p>	<p>The Accounts Commission and Audit Scotland will be considering this matter as it takes forward the proposed duty of user focus (including the need to demonstrate continuous improvement in this area) which will apply to all bodies listed under schedule 19 of the Public Service Reform (Scotland) Act 2010. In doing so, it will consult with key interested parties such as Consumer Focus Scotland.</p>

Appendix 2

The revised BV2 descriptors post-BV2 Pathfinders

<i>Performance dimension</i>		
	<i>How good is my council's overall performance?</i>	<i>What are my council's prospects for future improvement?</i>
<i>Performance descriptors</i>	<i>Outstanding</i>	<i>Excellent prospects</i>
	<i>Good</i>	<i>Good prospects</i>
	<i>Satisfactory</i>	<i>Fair prospects</i>
	<i>Unsatisfactory</i>	<i>Poor prospects</i>

Source: Audit Scotland
